



---

## WISCONSIN LEGISLATIVE COUNCIL RULES CLEARINGHOUSE

---

**Ronald Sklansky**  
*Clearinghouse Director*

**Richard Sweet**  
*Clearinghouse Assistant Director*

**Terry C. Anderson**  
*Legislative Council Director*

**Laura D. Rose**  
*Legislative Council Deputy Director*

### CLEARINGHOUSE REPORT TO AGENCY

[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

### CLEARINGHOUSE RULE 03-104

AN ORDER to create Tax 18.07 (1) (b) 4. and 5. and (c) 6, relating to assessment of agricultural land.

Submitted by **DEPARTMENT OF REVENUE**

10-20-2003      RECEIVED BY LEGISLATIVE COUNCIL.

11-13-2003      REPORT SENT TO AGENCY.

RNS:WF

**LEGISLATIVE COUNCIL RULES CLEARINGHOUSE REPORT**

This rule has been reviewed by the Rules Clearinghouse. Based on that review, comments are reported as noted below:

1. STATUTORY AUTHORITY [s. 227.15 (2) (a)]

Comment Attached YES ☐ NO ☒

2. FORM, STYLE AND PLACEMENT IN ADMINISTRATIVE CODE [s. 227.15 (2) (c)]

Comment Attached YES ☐ NO ☒

3. CONFLICT WITH OR DUPLICATION OF EXISTING RULES [s. 227.15 (2) (d)]

Comment Attached YES ☐ NO ☒

4. ADEQUACY OF REFERENCES TO RELATED STATUTES, RULES AND FORMS  
[s. 227.15 (2) (e)]

Comment Attached YES ☐ NO ☒

5. CLARITY, GRAMMAR, PUNCTUATION AND USE OF PLAIN LANGUAGE [s. 227.15 (2) (f)]

Comment Attached YES ☐ NO ☒

6. POTENTIAL CONFLICTS WITH, AND COMPARABILITY TO, RELATED FEDERAL  
REGULATIONS [s. 227.15 (2) (g)]

Comment Attached YES ☐ NO ☒

7. COMPLIANCE WITH PERMIT ACTION DEADLINE REQUIREMENTS [s. 227.15 (2) (h)]

Comment Attached YES ☐ NO ☒

**DEPARTMENT OF REVENUE**  
**CLEARINGHOUSE RULE NUMBER 03-104**  
**SECTION 227.19(2) AND (3), STATS., REPORT**

**Need for Proposed Rule**

The rule change is necessary to ensure positive assessments for agricultural land for the 2004 property tax year. The rule specifies that the 2004 assessment of agricultural land will be based on the same corn price, corn production costs, and interest rate data as used to calculate the 2003 values. Thus, the corn price and production costs used to calculate the 2004 values will be based on a 5-year average for the 1996-2000 period, and the interest rates used to calculate the capitalization rate for the 2004 values will be based on a 5-year average for the 1998-2002 period.

**Public Hearing**

A public hearing was held on December 16, 2003. Paul Zimmerman of the Wisconsin Farm Bureau registered in favor of the rule change. No other parties appeared at the hearing.

**Legislative Council Staff Recommendations**

The Legislative Council Rules Clearinghouse Report contained no comments or concerns.

**Regulatory Flexibility Analysis**

The proposed rule order does not have a significant economic impact on a substantial number of small businesses.

RB:skr

t:\rpt\rb\farmland\permanent rule\step4\rule #3-104.doc

## PROPOSED ORDER OF THE DEPARTMENT OF REVENUE

The Wisconsin Department of Revenue hereby proposes an order to create Tax 18.07(1)(b)4. and 5. and 18.07(1)(c)6.

---

### ANALYSIS PREPARED BY THE DEPARTMENT OF REVENUE

Statutory Authority: s. 227.11(2), Stats.

Statutes interpreted: s. 70.32(2r)(c).

Pursuant to s. 70.32(2r)(c), the assessment of agricultural land is assessed according to the income that could be generated from its rental for agricultural use. Wisconsin Chapter Tax 18 specifies the formula that is used to estimate the net rental income per acre. The formula estimates the net income per acre of land in corn production based on a 5-year average corn price per bushel, cost of corn production per bushel and corn yield per acre. The net income is divided by a capitalization rate that is based on a 5-year average interest rate for a medium-sized, 1-year adjustable rate mortgage and net tax rate for the property tax levy two years prior to the assessment year.

For reasons of data availability, there is a three-year lag in determining the 5-year average. Thus, the 2003 use value is based on the 5-year average corn price, cost and yield for the 1996-2000 period, and the capitalization rate is based on the 5-year average interest rate for the 1998-2002 period. The 2004 use value is to be based on the 5-year average corn price, cost and yield for the 1997-2001 period, and the capitalization rate is to be based on the 1999-2003 period.

The data for the 1997-2001 period yields negative net income per acre due to declining corn prices and increasing costs of corn production. As a result, reliance on data for the 1997-2001 period will result in negative use values.

Under the proposed rule order, the 2004 average net income per acre of agricultural land is to be based on the following:

- the 5-year average corn yield per acre from 1996 to 2000,
- the 5-year average market corn price per bushel from 1996 to 2000, and
- the 5-year average cost of corn production per bushel from 1996 to 2000.

The rule also specifies that the 2004 use values will be based on a capitalization rate that is the sum of the following:

- the 5-year average interest rate for a medium sized, 1-year adjustable rate mortgage for farm loans for the period from 1998 to 2002, and
- the net property tax rate for each municipality for 2001 taxes, payable 2002.

---

Section 1: Tax 18.07(1)(b)4. and 5. and (1)(c)6. are created to read as follows:

18.07(1)(b)4. To avoid negative use values in 2004, the 2004 average gross income per acre for each category of agricultural land shall be calculated as described in subd. 2, except that each category's 5-year average yield per acre shall be based on yield data from 1996 to 2000, and the 5-year average market price per unit of output shall be based on market price data from 1996 to 2000.

5. To avoid negative use values in 2004, the 2004 average total cost of production per acre for each category of agricultural land shall be calculated as described in subd. 3, except that the 5-year average cost of production per acre shall be based on cost data from 1996 to 2000.

18.07(1)(c)6. To avoid negative use values in 2004, the 2004 capitalization rate for each municipality shall be calculated as described in subd. 5, except the statewide moving average rate, as described in subd. 4, shall be based on data from 1998 to 2002, and the net tax rate for each municipality shall be based on 2001 taxes, payable 2002.

#### INITIAL REGULATORY FLEXIBILITY ANALYSIS

The proposed rule will have no adverse impact on small businesses.

---

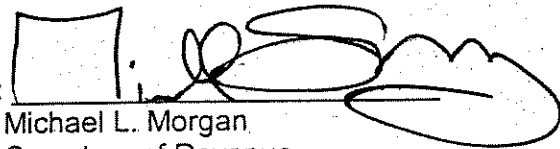
This rule shall take effect on the first day of the month following publication in the Wisconsin administrative register as provided in s. 227.22(2)(intro), Stats.

DEPARTMENT OF REVENUE

DATE:

1-6-04

BY:

  
Michael L. Morgan  
Secretary of Revenue

RB:skr

T:\REPORTS\Rebecca\Farmland\2003 farmland\Permanent Rule\proposed order.doc

## FISCAL ESTIMATE FORM

2003 Session

☒ ORIGINAL      ☐ UPDATED  
☐ CORRECTED      ☐ SUPPLEMENTAL

LRB # 03-

INTRODUCTION #

Admin. Rule # Chapter Tax 18

## Subject

2004 Use Value Assessment for Agricultural Land

## Fiscal Effect

State: ☐ No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

☒ Increase Existing Appropriation      ☐ Increase Existing Revenues  
☐ Decrease Existing Appropriation      ☐ Decrease Existing Revenues  
☐ Create New Appropriation

☐ Increase Costs - May be Possible to Absorb  
Within Agency's Budget ☐ Yes ☐ No
☐ Decrease CostsLocal: ☐ No Local Government Costs

1. ☐ Increase Costs  
☐ Permissive ☐ Mandatory

3. ☐ Increase Revenues  
☐ Permissive ☐ Mandatory

5. Types of Local Governmental Units Affected:

☒ Towns ☒ Villages ☒ Cities

2. ☒ Decrease Costs  
☐ Permissive ☒ Mandatory

4. ☐ Decrease Revenues  
☐ Permissive ☐ Mandatory

☐ Counties ☐ Others☐ School Districts ☐ WTCS Districts

## Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

## Affected Ch. 20 Appropriations

## Assumptions Used in Arriving at Fiscal Estimate:

The proposed rule amending Chapter Tax 18 would have the effect of freezing the 2004 assessment of agricultural land at 2003 levels. The proposed permanent rule is identical to the emergency rule promulgated October 3, 2003.

Under the current rule, the 2004 use value of agricultural land would be based on the 5-year average corn price, cost and yield for the 1997-2001 period, and the capitalization rate is based on the 5-year average interest rate for the 1999-2003 period.

Using the data for these periods, it is estimated that agricultural land would be valued at -\$1.95 billion. It is unclear how property with negative values would be taxed. If it is assumed that a negative assessment equates to an exemption of the property, the bill will result in an estimated property tax shift of \$34 million in 2004 from owners of agricultural land to owners of other taxable property [\$1.96 billion 2003 agricultural land value x .0175 estimated 2004/05 town tax rate per \$1,000 of value].

Under the proposed permanent rule, the 2004 use values are to be based on the same data used to calculate the 2003 use values. As a result, 2004 statewide agricultural land values will approximately equal the 2003 value of \$1.96 billion.

Under the proposed rule, local assessors will apply 2003 unit values to calculate 2004 values; as a result, there will be a savings in local assessment costs, since most parcel records will not require updating.

Under the proposed rule, there will be no loss of state forestry tax revenue. To the extent that the current rule would result in an exemption of agricultural land and therefore a loss of state forestry tax revenue, the

(continued on page two)

## Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue	Dennis Collier, <i>Dennis Collier</i>	12/23/03
REVRAB	(608) 266-5773	

FISCAL ESTIMATE FORM  
Chapter Tax 18  
Page 2

proposed rule would result in an increase in \$392,000 in state forestry tax revenues (\$1.96 billion x .0002) relative to current law.

RB:skr  
I:\admin rule\rb\Chapter 18.doc

DC  
12/23/03

## FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

2003 Session

☒ ORIGINAL    ☐ UPDATED  
☐ CORRECTED    ☐ SUPPLEMENTAL

LRB # 03

Admin. Rule #  
Chapter Tax 18

INTRODUCTION #

Subject

2004 Use Value Assessment for Agricultural Land

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	( FTE)	( - FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
<b>TOTAL State Costs by Category</b>	\$	\$ -
B. State Costs by Source of Funds		
GPR	\$	\$ -
FED		-
PRO/PRS		-
SEG/SEG-S		-
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
GPR Taxes	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S	392,000	-
<b>TOTAL State Revenues</b>	\$392,000	\$ -

## NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS

\$

\$ See text of fiscal note.

NET CHANGE IN REVENUES

\$392,000

\$ See text of fiscal note.

Agency/Prepared by: (Name &amp; Phone No.)

Wisconsin Department of Revenue

REVRAB

Authorized Signature/Telephone No.

Dennis Collier

(608) 266-5773

Date

12/23/03





# State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK RD. • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933  
PHONE (608) 266-6466 • FAX (608) 266-5718 • <http://www.dor.state.wi.us>

**Jim Doyle**  
Governor

**Michael L. Morgan**  
Secretary of Revenue

January 6, 2004

The Honorable Alan J. Lasee  
President State Senate  
State Capitol, Room 219 South  
P.O. Box 7882  
Madison WI 53707-7882

The Honorable John Gard  
Speaker State Assembly  
State Capitol, Room 211 West  
PO Box 8952  
Madison WI 53708-8952

Re: Clearinghouse Rule #03-104

Dear Senator Lasee and Representative Gard:

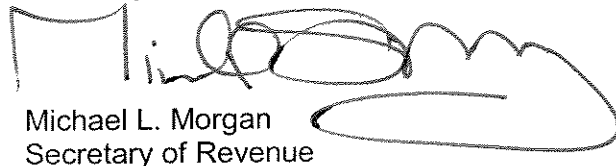
This is to notify you, in accordance with s. 227.19(2), Stats., that the proposed rule order relating to the 2004 assessment of agricultural land is in final draft form. The proposed rule order was published in the **Wisconsin Administrative Register** [November 30, 2003]. A public hearing was held on December 16, 2003.

Copies of the proposed rule order and Report required under s. 227.19(2) and (3), Stats., are enclosed. A brief summary of the proposed rule order follows.

## Summary of Proposed Rule Order

The rule changes are required to ensure positive assessments for agricultural land for the 2004 property tax year. The rule specifies that the 2004 assessment of agricultural land will be based on the same data used to calculate the 2003 values. Thus, the corn price and production costs used to calculate the 2004 values will be based on a 5-year average for the 1996-2000 period, and the interest rates used to calculate the capitalization rate for the 2004 values will be based on a 5-year average for the 1998-2002 period.

Sincerely,



Michael L. Morgan  
Secretary of Revenue

MLM:RB:skr  
t:\secltr\gard 206.doc

Enclosure